

**STATE OF SOUTH CAROLINA**

**INDEPENDENT AUDITORS' REPORT ON  
COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF  
GENERAL PURPOSE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS***

**JUNE 30, 1999**

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CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
GENERAL PURPOSE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable James H. Hodges, Governor  
and  
Members of the General Assembly  
State of South Carolina  
Columbia, South Carolina

We have jointly audited the general purpose financial statements of the State of South Carolina as of and for the year ended June 30, 1999, and have issued our report thereon dated December 2, 1999 in which we disclaimed an opinion on the required supplemental information relating to its year 2000 issue. We did not jointly audit the financial statements of certain blended component units and agencies of the primary government, which statements reflect the indicated percent of total assets and other debits and total revenues, respectively, of the Special Revenue (56% and 18%), Enterprise (99% and 92%), Internal Service (74% and 87%), Pension Trust (100% and 100%), Investment Trust (100% and 100%), Higher Education (100% and 100%), and Agency (13% of assets and other debits) Funds, General Fixed Assets Account Group (12% of assets and other debits), and the General Long-Term Obligations Account Group (38% of assets and other debits). We also did not jointly audit the financial statements of the discretely presented component units. Those financial statements were audited by other auditors, including the Office of the State Auditor and Deloitte & Touche LLP acting separately, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and agencies, is based solely upon the reports of other auditors. Deloitte & Touche LLP acting separately has examined 100% of the total assets and other debits and total revenues of the Investment Trust Fund. The Office of the State Auditor acting separately has examined 30% and 34% of the total assets and other debits and total revenues, respectively, of the Higher Education Funds. We conducted our joint audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

The Honorable James H. Hodges, Governor  
and  
Members of the General Assembly  
State of South Carolina

### Compliance

As part of obtaining reasonable assurance about whether the State of South Carolina's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance that is required to be reported under Government Auditing Standards and is described on page 3 of this report.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered the State of South Carolina's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the State of South Carolina's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described on pages 4 to 7 of this report.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

We also noted other matters involving the internal control over financial reporting that are described on pages 8 to 11 of this report.

This report is intended solely for the information and use of the Governor, Members of the General Assembly, the governing body and management of State agencies and the cognizant federal audit agency, and is not intended to be and should not be used by anyone other than these specified parties.

Columbia, South Carolina  
December 2, 1999

Columbia, South Carolina  
December 2, 1999

## **COMPLIANCE WITH LAWS AND REGULATIONS**

## **EDUCATIONAL SPENDING**

State Law requires that revenues from certain sources be restricted for public education. In addition, Proviso 72.1 of the 1998-99 Appropriation Act states, "Revenues derived from the General Retail Sales Tax, the Soft Drinks Tax, and the State's portion of Revenue derived from the Alcoholic Liquors Tax and Cable Television Fees, must be expended to cover appropriations herein made for the support of the public school system of the State only, and any amount of such appropriations in excess of these revenues shall be paid from other General Fund Revenues."

The State's accounting system allows for fund accounting but has no other way to match a particular revenue source with a particular expenditure within a fund. To ensure compliance with Proviso 72.1 the State Budget and Control Board's Office of State Budget, during the budget process preceding each fiscal year, prepares schedules to match projected revenues restricted for educational purposes with estimated educational expenditures. Then at the end of the fiscal year, the Comptroller General's staff prepares schedules to match the actual revenues restricted for educational purposes with the actual educational expenditures. In the past, monies expended for public education exceeded the revenue received. However, during the current year, revenue restricted for public education exceeded revenue projections. As a result the State did not expend all revenues restricted for education in the current year.

After the close of the fiscal year the Comptroller General's staff determined that revenue restricted for public education had exceeded the amount expended for educational purposes. The Comptroller General promptly notified the Governor and recommended that Proviso 72.1 of the Appropriation Act be amended to base appropriations for public education expenditures on revenues generated during the previous year instead of on revenue generated during the current year.

We recommend the Budget and Control Board and the Comptroller General's Office request the State legislature amend Proviso 72.1 of the Appropriation Act to base current appropriations for public education on revenues received in the previous year. This change would allow the State to base required spending levels on known revenue collections instead of on projected estimates.

See responses at page 12 and 16.

**REPORTABLE CONDITIONS**

## **GAAP CLOSING PACKAGES**

The Office of the Comptroller General (Comptroller General) obtains certain generally accepted accounting principles (GAAP) information from agency prepared closing packages to facilitate the preparation of the State's general purpose financial statements. Section 1.8 of the Comptroller General's GAAP Closing Procedures manual requires that each agency's executive director and finance director accept responsibility for submitting closing package forms that are accurate, complete and prepared in accordance with instructions. The quality of the information agencies submit through the closing package process directly affects the quality of the State's general purpose financial statements and other information including the State's Comprehensive Annual Financial Report. Therefore, it is essential that closing package information be accurate, complete and submitted to the Comptroller General in a timely manner.

The following is a summary of closing package errors and internal control weaknesses noted during the audit of the general purpose financial statements. Where material misstatements have occurred, adjustments were made to the general purpose financial statements to correct the closing package errors.

### **Revenue Estimation**

#### **Department of Health and Environmental Control**

The South Carolina Department of Health and Environmental Control (DHEC) recorded an estimate for medical services provided in its miscellaneous revenue closing package. In providing medical services through health clinics, home visits and long-term care, DHEC has a significant time lag in billing for services rendered. Thus to complete the closing package DHEC must estimate its year-end accounts receivable using various information available to management, as the actual billing information is not known as of the completion date of the closing package. This time delay in billing for services rendered is due to the method by which information is recorded by DHEC and the time delay in receiving billing information from county clinics. This condition could result in improper cash management due to a delay in billing for services rendered.

We recommend that DHEC identify the specific reasons why data cannot be processed more rapidly and develop and implement a system that accelerates the receipt of information from the county clinics relating to the various medical services that have been provided. This would enable DHEC to accelerate its billings, receive cash on a more timely basis, and to report a more precise accounts receivable balance at fiscal year-end.

See agency response at page 19.



## **Accounts Receivable**

### **Department of Health and Human Services**

The South Carolina Department of Health and Human Services (DHHS) did not report the estimated drug rebate receivable, applicable to the pharmaceutical company billings, for the quarter ended June 30, 1999 in the refund receivable closing package submitted to the Comptroller General's Office. As a result of this omission, the DHHS's refund receivable closing package was understated by \$15,618,047. As a result of the understatement of refund receivable, an adjustment was made to the closing package submitted to correct for this error. In addition, the DHHS did not request reimbursement until October 1999.

The rebate on pharmaceutical prescriptions can be reasonably estimated and should be recorded as a receivable and an offset to expenditures as of the fiscal year-end of the State of South Carolina, as provided under the modified accrual basis of accounting. The modified accrual basis of accounting provides that expenditures should be recognized in the accounting period in which the fund liability is incurred, if measurable. This situation has resulted in improper financial reporting.

We recommend that in the future DHHS estimate the amounts to be received as of the fiscal year end of the State of South Carolina, and report that amount in the closing package submitted to the Comptroller General's Office. We also recommend that the DHHS develop and implement a system to ensure that reimbursements are requested and received more timely.

See agency response at page 20.

## **Fixed Assets**

### **Educational Television Commission**

In fiscal 1994 Educational Television Commission (ETV) made a prepayment of \$570,000 related to the anticipated purchase of certain satellite decoding equipment. ETV personnel incorrectly classified this amount as a fixed asset addition in the fiscal 1994 and 1995 closing package. Further, in fiscal 1995 an inappropriate fixed asset disposal was recorded to remove \$110,000 of this amount from ETV's general ledger. Then in fiscal 1997 an additional inappropriate fixed asset disposal was recorded to remove the remaining \$460,000 from the general ledger.

When the equipment was ultimately received in fiscal 1997, ETV did not record the entire purchase price of \$1,212,458 as a fixed asset addition. An addition of only \$642,458 was recorded, resulting in an understatement of \$570,000 (the amount of the initial prepayment). This resulted in an understatement of fixed assets.

In fiscal 1999, ETV personnel discovered this error and recorded an appropriate correcting entry.

This situation resulted in an undetected misstatement of fixed assets in fiscal years 1994 through 1998.

### **Educational Television Commission (Continued)**

We recommend that agency personnel develop a policy, procedure, or system to ensure that additions and disposals relating to fixed assets are properly accounted for in relation to the economic substance of property and equipment transaction. Agency personnel need to take greater care in recording the disposal of equipment, and verify through inspection or other verifiable means that the disposal has in fact taken place. When equipment is disposed of, often times the documentation surrounding the original existence is lost. Should equipment be improperly considered disposed of, the documents surrounding evidence of ownership are often times disposed or stored, this can lead to misappropriation of assets and inability to prove ownership. We also recommend that agency personnel take greater care to ensure that the classification of amounts recorded in the general ledger and reported to agency management and to the Comptroller General of South Carolina are reflective of the facts.

See agency response at page 22.

### **Department of Corrections**

We noted that the Department of Corrections recorded a prior period adjustment for \$1,389,352 related to fixed assets. During the previous fiscal year, certain building and improvements paid for by Prison Industries were recorded on the Department of Corrections General Fixed Assets account. Based on instructions from the agency's internal auditors, the building and improvements needed to be transferred from general fixed assets accounts and correctly recorded in the Prison Industries fixed assets accounts. The transfer was necessary because Prison Industries is classified as an Internal Service Fund. We recommend that the Department of Corrections take greater care in completing the closing packages and ensure that its books properly reflect its fixed assets.

See agency response at page 23.

### **Adjutant General**

Supporting documentation for the Adjutant General's fixed assets closing package was not prepared. Our questions related to the closing package could not be readily answered, as supporting documentation reconciling to the closing package was not filed with the closing package submitted, and the amounts reported in the closing package could not be substantiated. Due to the inability to readily answer basic questions related to the closing package as submitted, it was necessary for audit personnel to return to the agency after our initial visit to continue the audit work on the fixed assets closing package. In response to our inquiries, the closing package was amended, as the amounts initially reported could not be substantiated.

We recommend that the Adjutant General maintain supporting reconciliations for Closing Packages that are readily accessible and support, in a clear and concise manner, amounts reported in the Closing Package.

See agency response at page 24.

### **Financial Reporting**

#### **Vocational Rehabilitation**

Vocational Rehabilitation (VR) changed its accounting system from a mainframe system to a client server system. As a result, the program that detects and identifies variances between VR's books and the amounts per the Comptroller General's (CG's) reports was not functioning during the majority of the fiscal year ended June 30, 1999. VR is currently in the process of going month by month to identify and correct these variances. At the time of our audit of the Grants and Entitlements Closing Package, these errors were not yet identified for correction, as such, the amounts reported within the closing package and submitted to the Comptroller General are misstated by approximately \$5,000.

### **Vocational Rehabilitation (Continued)**

In addition, many totals on the Schedule of Federal Financial Assistance (SFFA) did not agree to the VR's general ledger. Some of these variances could not be properly explained by the agency. Furthermore, for several of the grants, beginning balances for fiscal year 1999 did not agree to fiscal year 1998 ending balances.

We recommend that the variances discussed above be identified and corrected in a timely manner. VR should ensure that a monthly reconciliation to the CG's reports takes place.

See agency response at page 25.

### **Department of Social Services**

Department of Social Services (DSS) submitted fiscal year-end (fiscal month 13) accounts payable information on tape to the Comptroller General's (CG's) office in the amount of \$3,784,214. DSS made an error in the coding of these payables at year-end and as a result the amount submitted by DSS should have been \$124,096. Thus, DSS overstated 13<sup>th</sup> month accounts payable by \$3,660,118. DSS did not learn of this error until the CG's office had already closed their books. The resulting impact is an improper management of payables and the inability to provide timely and complete information on 13<sup>th</sup> month expenditures for fiscal year-end financial reporting purposes.

In addition, we noted that the amounts presented on the DSS's fiscal year 1999 Schedule of Federal Financial Assistance (SFFA) did not agree to the amounts as reported on the Department's general ledger. Transactions relating to federal financial assistance are still being processed, and as such the SFFA and the general ledger are not consistent with the amounts reported to the CG's office. DSS personnel stated that the reason why the amounts reported on the SFFA did not agree to the amounts reported on its general ledger for the majority of its Federal grants was due to the fact that the DSS has not closed out its general ledger for the fiscal year ended June 30, 1999. DSS personnel indicated that DSS does not expect to close out its general ledger until the later part of either November or December of 1999. Based upon all available evidence as of the date of this letter, the amount of the misstatement between the actual amount to be received from the Federal Government and the amount recorded in the Comprehensive Annual Financial Report of South Carolina is less than \$500,000. A correcting entry to the Comprehensive Annual Financial Report of the State of South Carolina has not been made due to the immateriality of the misstatement for financial reporting purposes.

We recommend that DSS develop a policy or procedure or put a system in place to ensure that the information being reported is representative of actual events. By reviewing the information DSS will be able to report an accurate amount of accounts payable, and provide for better cash management. DSS must ensure that its books are closed out in a more timely manner after the end of each fiscal year. Finally, DSS must ensure that all variances noted between the amounts reported on its SFFA and the amounts reported on its general ledger are identified and properly explained and eliminated.

See agency response at page 26.

## **OTHER MATTERS**

## **GAAP CLOSING PACKAGES**

### **Accounts Receivable**

#### **Department of Health and Human Services**

The South Carolina Department of Health and Human Services (DHHS) contracts with Palmetto Health Alliance (PHA) to provide long-term care services. PHA is reimbursed directly by Medicaid for the services and then remits the State's portion directly to DHHS. The contract provides that matching funds are to be transferred to DHHS quarterly over an annual period based on billings by DHHS. DHHS has billed quarterly amounts for \$793,868 and has yet to receive any remittances. This situation results in improper cash management due to a delay in receipt of amounts that have been billed.

We recommend that DHHS develop a policy or procedure or put a system in place to enable them to accelerate their collection of amounts billed thus providing for improved cash management.

See agency response at page 20.

### **Financial Reporting**

#### **State Treasurer's Office**

The State Treasurer's Office (STO) experienced some problems in the process of identifying cash deposits for the fiscal year ended June 30, 1999. This process is described as follows. Agencies submit deposit slips to the STO. The STO uses the information from the agency deposit slip to determine the proper Statewide Accounting and Reporting System account to credit. The STO reconciles the data from the agency deposit slip to data received from financial institutions. If the amount on the deposit slip does not agree to the actual cash deposits, the entire amount is considered unidentified as to the revenue code and fiscal year. STO staff then investigates these unidentified deposits in order to identify the proper agency and revenue account to credit. Historically the amount of unidentified deposits has ranged between \$2-3 million at fiscal year end, which is considered to be a reasonable amount. However, at June 30, 1999 the STO had an unusually large amount of unidentified deposits that still had not been cleared as of November 1999. We were told that the delay in clearing the unidentified deposits occurred because of staff turnover. We met with representatives from the Comptroller General's Office and the STO to resolve the issue. Subsequent to our meeting, the STO identified all but approximately \$3 million (considered to be a reasonable level).

Effective internal controls require that control activities be performed in a timely manner to appropriately detect and correct errors. The reconciliation of cash deposits and subsequent identification of revenue is a critical control activity for the proper recording of cash and revenue.

We recommend that the STO follow its procedures for ensuring timely identification of the revenue sources and fiscal years when reconciling cash deposits.

See agency response at page 27.

## **DATA PROCESSING**

### **General Comments**

#### **Budget and Control Board – Division of Operations – Office of Information Resources**

##### **Disaster Recovery/Business Continuity**

The State Budget and Control Board - Office of Information Resources (OIR) has developed a statewide Disaster Recovery Plan to be used by all agencies supported by OIR and its affiliates. Based on review of this plan, we noted that management has updated the plan this year, however, it has not been tested in several years.

Based on a review of the statewide Disaster Recovery Plan, we noted that there are no agency business continuity considerations indicating user procedures (by agency) which would need to be performed during the critical downtime of no computer processing.

Additionally, we noted that OIR is in the process of consolidating the data centers for all State agencies into one central processing site. OIR has indicated that at the time of consolidation, a new comprehensive Disaster Recovery Plan will be developed and tested on an annual basis. However, until then, a disaster at the State may result in data processing systems being unavailable for an extended period of time. Additionally, several of the agencies we reviewed (Treasurer's Office, Department of Revenue) do not have up-to-date, customized business continuity plans that are compatible with the Statewide Disaster Recovery Plan. During the year, the Comptroller General's Office developed a business continuity plan. Business continuity is the ultimate responsibility of each individual agency.

As the data centers are consolidated for the State agencies, we recommend that they consider implementing and testing a disaster recovery/business continuity plan which:

- Includes a formal Business Impact Assessment, conducted by experienced user and technology management, to determine the critical systems to be protected and the associated information resources that need to be safeguarded by contingency plans.
- Ensures the key data processing applications can be restored within a period of time that does not result in significant interruptions to the operations of the State.
- Prioritizes the recovery of the State's application systems in accordance with importance to continued business operations.
- Identifies the resources necessary for recovery. Resources should include people, as well as terminals, personal computers, calculators, printers, desks, chairs, and office supplies.
- Documents the manual processes that need to be maintained during the outage to ensure that application data integrity can be reinstated and synchronized once the systems are recovered and operational.

In the interim, each agency should ensure that the current disaster recovery and business continuity plan is tested on a periodic basis and updated based on the results of these tests. The development of a strong, cohesive disaster recovery/business continuity plan is an on-going effort that takes a substantial amount of time and resources throughout the State. As the new consolidated data center and its recovery plans are being developed, it is imperative that the State still protect itself against a disaster.

### **Access to Sensitive Customer Information Control System Transactions**

We noted that an excessive number of users from various agencies have access to use sensitive Customer Information Control System (CICS) transactions such as CECI and CEMT. CECI is a tool used by programmers to test CICS transactions interactively. CEMT is the master terminal transaction that can be used to perform the master terminal operator function that changes CICS resources. The master terminal operator has the ability to terminate transactions, monitor tasks, enable and disable exit programs and change definitions of CICS resources, which could allow unauthorized access to data.

We recommend that management review access to CICS transactions. CECI should be restricted to a few authorized personnel and only in the test environment. The CEMT transaction should only be given to an authorized operator at a terminal dedicated for the use of CEMT. The use of both CECI and CEMT should be monitored at all times.

### **Tape Management Procedures**

During our review of tape backup procedures, we noted that the tape library management system ("TLMS") did not have an accurate rotation schedule and therefore the majority of tapes listed were in an incorrect location. The TLMS system is responsible for tracking the physical location of all tapes for the Department of Revenue. The system records movement of tapes based on a pre-determined rotation schedule. In some instances, a physical tape will be moved to another location not listed on the rotation schedule and the system must be manually updated for this move. Without proper tracking of tapes, there is an increased risk of tapes becoming lost or unavailable in the event of an emergency.

We recommend that OIR perform a manual inventory of all tapes on a periodic basis to determine if their physical location is properly recorded within TLMS. In addition, evaluate the tape rotation schedule within TLMS to determine where the errors are occurring between the physical location of the tape and the logical location within TLMS.

See agency response at page 16.

## **Department of Revenue**

### **Formal Database Change Requests**

Unauthorized or inappropriate changes to the Department of Revenue data could occur, as procedures are not in place to properly log the request for database changes. Currently, all user change requests (e.g., program changes or database changes) are documented on a work request form. These requests are assigned to the appropriate programmers responsible for the given system. If the request requires a database change, the programmers will contact a DBA (database administrator) to perform the appropriate change. The information and specifics for the database request are not documented.

We recommend that when database changes are required, appropriate request information should be prepared by the requesting party describing what change is to be made, and why the change is necessary. For application projects that require database changes, the application change request number should be referenced within the letter granting authority for the change. When a request is not part of an application project, ensure that the request is properly documented on a change request form by the user or designated IS personnel. We suggest that a log be maintained for tracking all database changes, and that the log reference

### **Formal Database Change Requests (Continued)**

the change and the applicable document authorizing the change. Additionally, we suggest that the documentation authorizing the change be kept in a central location to provide readily available support for the authorization of the change. Upon completion of the change, review the request and obtain appropriate approvals that designate that the change was performed as requested, such verification should be kept with the change request log. Additionally, enhance the current policies and procedures for database changes to include these new procedures.

### **Password Parameters for Shared User Codes**

We noted that all of the computer operators at the Department of Revenue share sign-on codes (i.e., TCOP\*\*\*) to perform various operational procedures in the computer room. Additionally, the passwords for these sign-on codes are not changed on a periodic basis. As a result, unauthorized or accidental changes to production processing could occur without accountability for use of the sign-on codes and passwords.

We recommend that a review of policies and procedures related to these sign-on codes take place to determine if access privileges can be granted to operations personnel through their own unique sign-on code. As such, each operator will be accountable for his/her sign-on code and password changes can be made on a periodic basis. At a minimum, if individual sign-on codes can not be administered, ensure that the passwords related to these sign-on codes are changed on a periodic basis.

### **Monitoring of Changes to Production Data**

Database administrators and all technical support personnel have unmonitored and unrestricted access to production libraries and datasets. As a result, inappropriate changes to sensitive data or programs could occur.

We recommend that a review and evaluation of access to production libraries and datasets to restrict access, where appropriate. Access to production programs and data should be restricted on a "least privilege" basis. Typically, this consists of security administrators, support tools and individuals supporting the operational or technical resources of the processing environment. All other update access should be for emergency purposes only, whereby the user receives temporary access to production. At a minimum, where update access is required ensure appropriate monitoring controls are in place to provide an audit trail of activity within the production libraries.

See agency response at page 28.

### **SUMMARY OF PRIOR YEAR FINDINGS**

The findings included in the prior year report on compliance and on internal control over financial reporting at the general purpose financial statement level issued by the joint audit team were reviewed to determine if the conditions still existed. Based on our audit procedures we determined that the following findings had not been corrected: Reconciliations - Department of Social Services (repeated in "Financial Reporting" in the Reportable Conditions section on page 7) and Disaster Recovery/Business Continuity - Budget and Control Board Office of Information Resources (repeated in "Data Processing" in the Other Matters section on page 9).



## **MANAGEMENT'S RESPONSES**



State of South Carolina

# Office of Comptroller General

Wade Hampton Office Building

Post Office Box 11228

Columbia, South Carolina 29211

JAMES A. LANDER

COMPTROLLER GENERAL

GERALD W. BURNETT

DEPUTY COMPTROLLER GENERAL

December 20, 1999

Mr. Thomas L. Wagner, Jr.  
State Auditor  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Tom:

I appreciate the professional manner in which your staff conducted the statewide audit for the fiscal year ended June 30, 1999. I understand that the Management Letter resulting from that audit included the following recommendation:

We recommend the Budget and Control Board and the Comptroller General's Office request the State legislature amend Section 72.1 of the Appropriation Act to base current appropriations for public education on revenues received in the previous year. This change would allow the State to base required spending levels on known revenue collections instead of on projected estimates.

As your report indicated, my staff determined soon after the close of the 1998-1999 fiscal year that the State had not complied with Section 72.1 of the 1998-1999 Appropriation Act as currently worded. On September 1, 1999, I formally notified Governor Hodges of the problem and made the recommendation stated above (see attached letter). I also sent copies of my letter to the leadership of the State legislature (see page 2, attached letter).

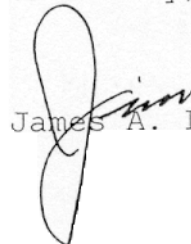
Office of Comptroller General

Mr. Thomas L. Wagner, Jr.  
December 20, 1999  
Page 2

The General Assembly next convenes in January 2000. At that time, my office will seek legislative sponsors for a bill to propose the change described above. Throughout the legislative process, my staff will stand ready to answer any questions about this issue that arise.

Unless you indicate otherwise, my office will assume that the action described above will sufficiently address the portion of the recommendation directed to us. We look forward to working with the State Auditor's Office in the audit of the State's financial statements for the fiscal year ending June 30, 2000.

Sincerely,



James A. Lander

JAL:bpg  
Attachment



State of South Carolina  
Office of Comptroller General

Wade Hampton Office Building  
Post Office Box 11228  
Columbia, South Carolina 29211

JAMES A. LANDER  
COMPTROLLER GENERAL

GERALD W. BURNETT  
DEPUTY COMPTROLLER GENERAL

September 1, 1999

The Honorable James H. Hodges  
Governor  
Post Office Box 11369  
Columbia, South Carolina 29211

Dear Governor Hodges:

Section 72.1 in the permanent part of the 1998-99 Appropriation Act required that the revenues derived from the General Retail Sales Tax, the Soft Drinks Tax and the State's portion of revenue derived from the Alcoholic Liquors Tax be expended for the support of the public school system. Appropriations for the support of the public school system identified in the Act include:

- Department of Education
- State Board for Technical and Comprehensive Education
- Educational Television Commission
- Wil Lou Gray Opportunity School
- School for the Deaf and Blind
- John de la Howe School
- Debt service on Capital Improvement Bonds applicable to the above agencies
- Debt Service on School Bonds
- Other School Purposes

Exhibit A shows that the expenditure requirement was not accomplished for fiscal year 1998-99. Revenues increased unexpectedly during the last quarter of the fiscal year which was too late to increase spending for school purposes. Public education expenditures were \$23,575,490 less than the amount

Office of Comptroller General

The Honorable James H. Hodges  
September 1, 1999  
Page 2

required by the Appropriation Act. This condition will be disclosed to our statewide auditors and reported in the statewide financial statements as a material violation of State law.

In order to prevent this condition from occurring again, I recommend that the proviso in the Appropriation Act (Exhibit B) be changed such that the amount of the specified revenues collected in the preceding fiscal year are required to be expended for those school purposes.

Please let me know if I can be of any further assistance in this matter

Sincerely,



James A. Lander

Senator John Drummond  
Representative Henry Brown  
Speaker David Wilkins  
Honorable Inez Tenenbaum  
Mr. Les Boles

STATE OF SOUTH CAROLINA  
**State Budget and Control Board**  
OFFICE OF INTERNAL OPERATIONS

JIM HODGES, CHAIRMAN  
GOVERNOR

GRADY L. PATTERSON, JR.  
STATE TREASURER

JAMES A. LANDER  
COMPTROLLER GENERAL



JOHN DRUMMOND  
CHAIRMAN, SENATE FINANCE COMMITTEE

ROBERT W. HARRELL, JR.  
CHAIRMAN, WAYS AND MEANS COMMITTEE

RICK KELLY  
EXECUTIVE DIRECTOR

1201 MAIN STREET, SUITE 700  
COLUMBIA, SOUTH CAROLINA 29201  
(803) 737-0500  
(803) 737-1978 FAX

JAMES M. SIMPSON, JR.  
DIRECTOR

January 18, 2000

Richard H. Gilbert, Jr.  
Office of the State Auditor  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Mr. Gilbert:

We have reviewed the comments relating to the S.C. State Budget and Control Board which resulted from the audit of the State of South Carolina for the year ended June 30, 1999. We have enclosed our responses.

Yours truly,

A handwritten signature in black ink that reads 'Rick'.

Richard W. Kelly  
Executive Director

RWK:gs

Enclosure

**STATE OF SOUTH CAROLINA  
RESPONSES TO CONTROL FINDINGS  
AND SUGGESTIONS FOR IMPROVEMENT  
June 30, 1999**

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**Disaster Recovery / Business Continuity**

The Office of Information Resources (OIR) has taken aggressive measures to address the need for a comprehensive disaster recovery/business continuity (dr/bc) plan. OIR has obtained a total commitment from top management to convey not only the mission of the plan but to communicate to all those involved the importance with which dr/bc planning is held by the highest level of management.

OIR's current disaster recovery plan focuses on the cold-site concept. However, a request for proposal for a dr/bc plan that focuses on the hot-site concept is in the final stage of development. OIR intends to award the disaster recovery contract in October 1999.

OIR has established a planning committee for the development and implementation of the dr/bc plan. The planning committee includes representatives from LAN technical services, technical support services, computer operations, and applications programming which are functional areas of Operations Information Systems. Customer representation will be included after a dr/bc vendor has been selected. The planning committee is responsible for addressing the risk factors and assessing the impact within each functional area of the organization. The principle functions performed are to:

- Establish work group or team membership and objectives
- Establish roles and responsibilities for planning, plan approval, and quality assurance
- Identify vital services and resources
- Test plan and report progress
- Maintain and update plan
- Communicate and coordinate strategy with relevant intra and inter-agency organizations (including local government and community organizations)
- Assess effectiveness of dr/bc plans

OIR's comprehensive plans for dr/bc will ensure continuity of operations and availability of critical agency resources. Adequate time and resources have been committed to the development of this plan. Your recommendations are appreciated and will be given our appropriate consideration.

## **Access to Sensitive CICS Transactions**

Management has reviewed this list of users with our user agencies. With their input we have decreased the number of users from 61 to only 15. Now that this process has been started, we can review this list on an as needed basis to ensure our users are satisfied with the access being allowed.

## **Tape Management Procedures**

The tapes in question are specifically created to be sent off-site, not as backups to existing files. OIR has worked with staff members from the Department of Revenue (DOR) to deal with this particular situation. The resolution was discussed and the following actions will be taken:

- DOR will review the inventory of active “TC” ( Tax Commission – former name for DOR) tapes and their locations. According to DOR, a large number of these tapes can be scratched. The remaining active tapes that have the wrong location will have the retention of their data sets reviewed and changed if necessary to update with the correct site location.
  - All “TC” tapes being returned to OIR will have a manual scratch request form with the exception of two data sets.
  - DOR will review the two data set names that are to be retained and work with the OIR Tape Librarians to change the retention to reflect the correct movement of these tapes. If these tapes are returned early, OIR Tape Librarians will manually change the locations to show the tapes have been returned to the OIR location.
- DOR and OIR will do another review of these tapes in January.

## **Educational Spending**

The Budget and Control Board concurs with the recommendation and will work with the Comptroller General’s Office to request the General Assembly consider this change to proviso 72.1 of the Appropriation Act.





December 8, 1999

2600 Bull Street  
Columbia, SC 29201-1708

Mr. Richard H. Gilbert, Jr., CPA  
Director of State Audits  
Office of the State Auditor  
Suite 1200  
1401 Main Street  
Columbia, SC 29201

Dear Mr. Gilbert

Please accept the following regarding the Department's response to the FY99 GAAP Closing Package audit recommendation. We concur with the recommendation for minimization of lapsed time between date of service and date of billing. The Department has substantially reduced the lapsed time over the past two years. Continued improvements are restricted to the capabilities of the computer system currently in use by the Home Health Services program area within DHEC.

The Department, in recognizing the short comings of its existing computer system and the changes in the Medicare Home Health program, has worked very closely with the Materials Management Office to procure a new computer system. This new system would allow service providers in the field the capability of processing on-line transactions which could then be uploaded to the district offices. This would again dramatically reduce the lapsed time between dates of service and billing dates. However, until the new system can be fully implemented, the estimation of billing at year end for the GAAP Closing package will be the optimal solution for reporting purposes.

Should you or your staff have any further questions on this matter, please contact me at 898-3425.

Sincerely

JOHN T. WATSON, CPA  
Director  
Bureau of Finance

tlw



**State of South Carolina**  
**Department of Health and Human Services**

James H. Hodges  
Governor

J. Samuel Griswold, Ph.D.  
Director

December 9, 1999

Mr. Rich M. Gilbert  
Director of State Audits  
State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Gilbert:

Below are our responses to the reportable conditions applicable to our Department for the joint audit of the State of South Carolina:

**Accounts Receivable - PHA**

This was an unusual situation with the receivable for this contractor and several meetings of executive level staff have been held over the past year with the contractor to bring resolution to this issue. DHHS has policies and procedures in effect for collecting receivables timely.

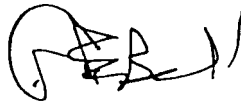
**Accounts Receivable - Drug Rebates**

Drug Rebate accounts receivable have not previously been reported on the refund receivable closing package; however, after reviewing the closing package instructions again and various principles, we concur that these receivables should be reported. We realize our process pertinent to drug rebate receivables is cumbersome and complicated due to various reimbursement methods for pharmaceutical services. We currently are writing a RFP to procure a point of sale system for pharmaceutical services which will include drug rebate receivable billings. This should speed up

billings and collections; however, if actual billings are available at the due date of the closing package, we can report an estimated receivable amount.

Should you require further information please contact Jenny Butler at (803) 898-4502.

Sincerely,

A handwritten signature in black ink, appearing to read 'GEB', with a stylized flourish extending to the right.

Gary E. Bell  
Deputy Director

GEB/bw

PAUL R. AMOS  
President & CEO  
(803) 737-3240  
FAX (803) 737-8298  
email: pamos@scetv.org

December 9, 1999

Mr. Rich Gilbert  
Director of State Audits  
State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, S.C. 29211

Dear Mr. Gilbert:



This is in response to the reportable conditions associated with this agency's GAAP Fixed Assets Closing Package for the fiscal year ending 6/30/99. We acknowledge the error in recording an equipment purchase in 1995 and 1997. We also acknowledge that this error resulted in inaccurate reporting of fixed assets on the GAAP Fixed Assets Closing Packages for fiscal years 1996, 1997 and 1998.

The error was detected by agency personnel during fiscal year 1999 and an adjustment to prior year balance was made on the GAAP Fixed Assets Closing Package for fiscal year 1999. Additional procedures will be developed to ensure accountability and accurate reporting of fixed assets in the future.

I apologize for this response being late. We never received the FAX sent on November 29, 1999. If you have any questions, please call me at 737-3318.

Sincerely,



David L. Crouch  
Vice President  
For Administrative Services



November 30, 1999

Mr. Rich M. Gilbert  
Director of State Audits  
State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Rich,

I have reviewed the attached reportable condition associated with our agency's GAAP closing package and agree with your findings and recommendations. We have taken steps to assure that closing packages are properly prepared and reviewed in accordance with Comptroller General procedures.

Sincerely,

Bruce Burnett

cc: John Davis

**The State of South Carolina**  
**Military Department**



**Office of the Adjutant General**

**STANHOPE S. SPEARS**  
**MAJOR GENERAL**  
**THE ADJUTANT GENERAL**

**1 NATIONAL GUARD ROAD**  
**COLUMBIA, S.C. 29201-4766**

**November 30, 1999**

**Mr. Rich M. Gilbert**  
**Director of State Audits**  
**State Auditor's Office**  
**1401 Main St. Suite 1200**  
**Columbia, South Carolina 29201**

**Dear Mr. Gilbert**

I would like to thank the Deloitte & Touche auditors and Ms. Sandy Smith in the Comptroller General's office for their assistance in properly preparing the GAAP Fixed Asset Closing Package. We have taken steps to ensure that the GAAP Fixed Asset closing package will be prepared and reviewed in accordance with the Comptroller General's procedures.

**Sincerely**

A handwritten signature in cursive script, appearing to read "Paul Slh".

**Donald Schlomer**  
**Dir Accounting & Finance**

**Cc: Ms. Karen Heaton**

# South Carolina Vocational Rehabilitation Department

P. CHARLES LaROSA JR., COMMISSIONER

Enabling eligible South Carolinians with disabilities to prepare for, achieve and maintain competitive employment

1410 Boston Avenue • Post Office Box 15 • West Columbia, South Carolina 29171-0015



**TO:** Rich Gilbert, Director of State Audits

**FROM:** Joe Morris, Director of Accounting

**DATE:** December 9, 1999

**SUBJECT:** Response to audit findings

In response to the finding regarding our inability to reconcile our transactions with the Comptroller General's records. The computer program that matches our records with the Comptroller General's is now operational, although only as of last month. We are now able to identify all unmatched items. We have almost a whole year of unmatched transactions and are now in the process of identifying the errors and making corrections.

A result of being unable to reconcile was that in preparing the Schedule of Federal Financial Assistance (SFFA) we sometimes did not know which figures for revenues and expenditures were correct. Most differences were for minor amounts and usually, if we could not identify the variance, we assumed the Comptroller General's figures were correct.

The finding that beginning balances often did not equal the previous years ending balance is due to the fact that at the time the SFFA was prepared for fiscal year 1998 we still did not have all transactions reconciled. As these transactions were reconciled in fiscal year 1999 corrections were made that affected year end balances. Many of these adjustments are reflected on the Comptroller General's Trial Balances (CSA467CM) for fiscal year 1999 under account 272, *Adjustments to Prior Year Fund Balances*.



## SOUTH CAROLINA DEPARTMENT OF SOCIAL SERVICES

Elizabeth G. Patterson, J.D., State Director, Post Office Box 1520, Columbia, South Carolina 29202-1520

December 3, 1999

Mr. Rich M. Gilbert  
Director of State Audits  
State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, South Carolina 29201

Dear Mr. Gilbert

We have reviewed the reportable conditions identified by the State Auditors during their GAAP review for Fiscal Year 1999.

Our responses to the reportable conditions are:

- 1 Accounts Payable – We have taken steps to ensure Fiscal Month 13 accounts payable information is correct.
- 2 Schedule of Federal Financial Assistance - All federal reports for the final quarter of the SFY are normally prepared using information from the general ledger as of June 30<sup>th</sup>, dated around July 12 - 14<sup>th</sup>, so reports are received by the federal agencies by July 30<sup>th</sup>. The CG's books are normally closed around July 18<sup>th</sup> or 20<sup>th</sup>. As a result of this process the grant activity continues on the DSS general ledger after the reports are prepared, thus creating a difference between DSS and the CG's records. Once the Agency's month 13 is closed out we are able to complete the Audit file and finalize the variance explanations. The process will be refined for SFY 1999-2000 to enable the Department to complete its federal funds reconciliations on a more timely basis.

Should there be any questions, please call Billy Gossett at 898-7490.

Sincerely,

A handwritten signature in cursive script, reading "Wendell Price", is written over a horizontal line.

Wendell Price, Deputy State Director  
Administration and Program Support

WP:gr



## OFFICE OF STATE TREASURER

GRADY L. PATTERSON, JR.  
STATE TREASURER



P.O. DRAWER 11778  
COLUMBIA, SC 29211  
TEL. (803) 734-2101

118 WADE HAMPTON OFFICE BUILDING  
COLUMBIA, SC 29201

December 9, 1999

Mr. Rich H. Gilbert  
Director of State Audits  
State Auditor's Office  
1401 Main Street, Suite 1200  
Columbia, SC 29201

Dear Rich:

We have reviewed the attached condition identified in your report and agree with your finding and recommendation. We have taken steps to ensure that bank reconciliations and the identification of the revenue will be performed in a timely manner. Steps taken to date include hiring an additional employee in the Banking Operations area to provide cross-training, and additional supervision of the functions of that area. Additionally we have proposed several enhancements to the deposit system which will allow for more efficient and timely recording of revenue and reconciliations.

Sincerely,

A handwritten signature in black ink, appearing to read "M. S. Commins", is written over a light gray rectangular background.

Melvin S. Commins, CPA  
Senior Assistant State Treasurer – Accounting and Banking

State of South Carolina  
Department of Revenue  
301 Gervais Street, P.O. Box 125, Columbia, South Carolina 29214

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Stephanie Justice  
Deloitte& Touche  
227 W. Trade Street  
Charlotte, NC 28202  
September 10, 1999

Dear Stephanie:

In response to your follow-up e-mail of September 2, 1999, copy attached, we have reviewed your Control Findings and Suggestions for Improvement of DOR internal controls for the year ended 6/30/99, and provide the following responses:

**Formal Database Change Requests**

**Observation:** Unauthorized or inappropriate changes to the Department of Revenue data could occur, as procedures are not in place to properly log the request for database changes....the information and specifics for the database request are not documented. Additionally, we noted that policies and procedures have not been formally established for database maintenance.

**Response:** The primary concern in this instance is that the request by a programmer for a database change, needed to respond to an approved Work Request, is not always in writing and has not always been retained with the other documentation regarding the change. This comment really only applies to **Test** database changes. Written programmer requests have always been required and have always been retained for all **Production** database changes. That file was reviewed during your visit.

New procedures have been established to require that all database change requests, for both **Test** and **Production** be submitted to the Database Administrator in writing or by using e-mail. Requests must identify the associated Work Request number. These database change requests will be centrally filed and retained by the Database Administrator. All database changes will continue to be handled under DOR's formal Work Request and Change Migration procedures and will continue to be recorded in the Database Maintenance Log, as is the current procedure. Upon completion of the requested database change, the requestor will be required to review the change and sign off that the change was properly completed. These revised procedures are being incorporated into the DOR Standards Manual.

## **Information Security**

**Observation:** During our review, we noted that all of the Computer Operators at the Department of Revenue share sign-on codes to perform various operational procedures in the Computer Room. Additionally, the passwords for these sign-on codes are not changed on a periodic basis. As a result, unauthorized or accidental changes to production processing could occur without accountability for use of the sign-on codes and passwords.

**Response:** The password cited is an application-specific generic ID shared by users in the Computer Operations department to facilitate daily work routines involving file transfers. This password is in addition to individual Mainframe and Network passwords used by the operators. This procedure has been in existence for many years, has not caused any unauthorized or accidental changes and is considered an acceptable practice for handling file transfers in DOR's multi-operator, multi-system environment.

There are three operators on the First Shift and two operators on the second and third shifts, accessing a total of five different file transfer systems. Computer Operators constantly shift from one system to another and frequently replace each other at the various workstations, as the situation requires. A requirement to log off and on each time an operator switches systems or workstations would be highly time consuming and detrimental to the operators' ability to respond to all system requirements in a timely manner, to say nothing of the confusion of remembering a different password for each switch.

This password should be changed on a recurring schedule. This has not been done on a regular basis. New procedures have been instituted to change the password semi-annually in conjunction with the semi-annual combination lock change and to change the passwords anytime an employee leaves DOR employment. These changes will be incorporated into DOR's Standards Manual.

## **Monitoring of Changes to Production Data**

### **Observation:**

Database Administrators and all Technical Support personnel have unmonitored and unrestricted access to production libraries and data sets. As a result, inappropriate changes to sensitive data or programs could occur.

### **Response:**

Access to production libraries and data sets has been reviewed to restrict access to the minimum number of personnel, on a least privilege basis.

All database changes are controlled by formal DOR Work Requests and are conducted under formal DOR Change Migration procedures. All database changes are recorded in the Database Maintenance Log. And, as stated above, all programmer requests for database changes will be in writing and will be retained, for both **Test** and **Production**. Upon completion of the requested database change, the requestor will be required to review the change and sign off that the change was properly completed. All database access and update are monitored through these procedures and documentation.

In addition, the Security Manager monitors security access through the Resource Access Control Facility (RACF) Daily Report. The Security Manager monitors and resolves all incidents of attempted, but failed access daily. If there was a security breach it would be acted upon immediately, however all past reported incidences of failed access attempts have been the result of one of the following:

Security was revoked due to three failed attempts at entering a password.  
Access was attempted using an expired or revoked password..  
Access was attempted with a typographically incorrect password.  
Access was inadvertently attempted on a data set not authorized.

A new procedure has been instituted to provide a summary report of all failed access attempts to the Division Administrator in the Monthly Status Report.

If you have any further questions, please contact Ken Clark at 898-5591

Sincerely,

*Jerry Ellen Garber for IAN*

Ike A. Nooe, IRM Division Administrator

copy to: Betsy Carpentier  
E. Gregorie Frampton  
Otis Rawl